KWA SANI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

for the year ended

30 June 2010

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 41 in terms of section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 17 of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

S P Gwacela
Municipal Manager

Date

KWA SANI MUNICIPALITY
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KWA SANI MUNICIPALITY
GENERAL INFORMATION

COUNCIL MEMBERS

Mr M Banda	(Mayor)
Mr I Ndlovu	(Deputy Mayor)
Mr D Adam	
Miss P Joxo	
Miss NJ Luswazi	

GRADING OF MUNICIPALITY
Grade 1

AUDITORS
Auditor General

BANKERS
First National Bank of South Africa Limited

OPERATIONS
The municipality provides all essential services except electricity, water and sewerage.

REGISTERED OFFICE

Arbuckle Street	P O Box 43	Telephone Number
Himeville	Himeville	033-7021060
3256	3256	

MUNICIPAL MANAGER
Mr SP Gwacela

CHIEF FINANCIAL OFFICER
Mr IS White (Acting)

KWA SANI MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2010

NET ASSETS AND LIABILITIES	Note	2010 R	2009 R
Net assets		60 241 161	50 789 160
Revaluation reserve		34 900 591	34 900 591
Accumulated Surplus		25 340 570	15 888 569
Non-current liabilities			
Long-term liabilities	1	2 082 721	2 403 647
Non-current provision	2	1 400 000	1 400 000
Current liabilities		15 300 766	11 913 682
Creditors	3	3 750 616	4 615 964
Unspent conditional grants and receipts	4	11 228 481	6 958 116
Current portion of long - term liabilities	1	321 669	339 602
Total Net Assets and Liabilities		79 024 648	66 506 489
ASSETS			
Non-current assets		60 885 126	52 863 837
Property,plant and equipment	6	40 227 023	32 271 745
Intangible assets	6	70 948	4 937
Investment properties	7	20 587 155	20 587 155
Current assets		18 139 522	13 642 652
Consumer debtors	8	2 647 624	1 509 311
Other debtors	9	604 038	51 249
Call investment deposits	10	13 230 132	9 581 605
Bank balances and cash	11	1 106 993	1 059 789
VAT	5	550 735	1 440 698
Total Assets		79 024 648	66 506 489

KWA SANI MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2010

Budget 2009 R	Budget 2010 R		Note	Actual 2010 R	Actual 2009 R
		REVENUE			
7 118 457	7 375 632	Property rates	12	7 345 228	6 795 601
211 942	373 909	Property rates-penalties and charges		608 262	387 386
2 060 018	1 813 187	Service charges	13	1 688 889	1 609 248
182 000	284 842	Rental on facilities and equipment		235 518	243 906
775 929	824 037	Interest earned-external investments		488 931	792 223
150 000	250 630	Fines		41 850	122 870
1 020 252	531 321	Licences and permits		143 518	116 962
28 881 300	26 242 302	Government grants and subsidies	14	32 636 398	28 071 960
-	-	Profit on sale of property, plant and equipment		92 803	-
-	-	Revaluation of property, plant and equipment		109 429	-
-	-	Capital grants	14	8 312 966	2 383 547
108 500	579 050	Other Income	15	742 341	262 992
40 508 398	38 274 910	**Total Revenue**		52 446 133	40 786 695
		EXPENDITURE			
6 394 587	7 669 269	Employee related costs	16	7 979 649	6 942 285
1 094 180	1 221 209	Remuneration of Councillors	17	1 140 090	1 085 805
330 000	536 470	Bad debts	25	24 905	1 468 861
1 214 997	1 026 011	Depreciation		1 413 564	1 308 564
575 375	717 400	Repairs and maintenance		476 822	682 370
180 714	137 792	Interest paid	18	132 535	163 298
-	-	Grants paid		-	-
2 609 670	5 068 466	Contracted services		4 750 837	4 758 508
5 316 575	5 502 153	General expenses	19	5 629 262	6 735 413
-	-	Interest earned - transferred to Reserve		59 406	-
22 339 300	15 780 490	Housing Projects expenditure	14	21 331 974	18 591 095
-	-	Loss on scrapping of property, plant and equipment		19 292	4 365
-	-	Impairment of property, plant and equipment		95 203	-
453 000	615 650	Contribution to Reserves		-	-
40 508 398	38 274 910	**Total Expenditure**		43 053 539	41 740 564
-	**-**	**SURPLUS (DEFICIT) FOR THE YEAR**		**9 392 594**	**(953 869)**

Refer to Appendix E (1) for explanations of variances

KWA SANI MUNICIPALITY

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2010

	Revaluation Reserve	Accumulated Surplus	Total
	R	R	R
Balance at 30 June 2009	34 900 591	15 888 569	50 789 160
			-
2010			
Surplus for the year		9 392 594	9 392 594
Interest on investments allocated to the Capital Replacement Reserve		59 407	59 407
Balance at 30 June 2010	34 900 591	25 340 570	60 241 161

Analysis of the Accumulated Surplus	2010 R	2009 R
Capital replacement reserve	1 159 832	1 165 537
Capitalisation reserve	319 511	333 177
Government grant reserve	20 660 555	13 224 308
Donations and public contributions reserve	4 095	4 259
Accumulated Surplus	3 196 577	1 161 288
	25 340 570	15 888 569

Prior period errors (see Note 28)	Property Plant and Equipment	Investment Properties	Accumulated Surplus	Capitalisation Reserve	Government Grant Reserve
Balance at 30 June 2009	52 858 900	-	1 124 507	349 978	13 244 288
Prior period errors - Disclosure of Investment Properties					
- Valuation	(20 620 000)	20 620 000			
- Accumulated depreciation	32 845	(32 845)			
- Funding adjustments			36 781	(16 801)	(19 980)
Re-stated Balance at 30 June 2009	32 271 745	20 587 155	1 161 288	333 177	13 224 308

KWA SANI MUNICIPALITY

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 R	2009 R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and others		55 344 592	41 188 624
Cash paid to suppliers and employees		(42 319 847)	(37 034 299)
Cash generated from/(utilised in) operations	20	13 024 745	4 154 325
Interest received		488 931	792 223
Interest paid		(132 535)	(163 298)
NET CASH FLOW FROM OPERATING ACTIVITIES		**13 381 141**	**4 783 250**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(9 439 354)	(2 947 024)
Proceeds on disposal of property, plant and equipment		92 803	
(Increase)/decrease in long - term receivables		-	13 785
(Increase)/decrease in call investment deposits		(3 648 527)	(1 405 900)
NET CASH FLOW FROM INVESTING ACTIVITIES		**(12 995 078)**	**(4 339 139)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan raised/(repaid)		(338 859)	(478 128)
NET CASH FROM FINANCING ACTIVITIES		**(338 859)**	**(478 128)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**47 204**	**(34 017)**
Cash and cash equivalents at the beginning of the year		**1 059 789**	**1 093 806**
Cash and cash equivalents at the end of the year	21	**1 106 993**	**1 059 789**

1. BASIS OF PRESENTATION

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention.

The Annual Financial Statements have been prepared in accordance with the Accounting Standards and principles contained in Directive 3 and 5 issued by the Accounting Standards Board ("ASB") in March 2009.

The Accounting Framework of the municipality, based on the preceding paragraphs and applicable to the operations of the municipality, defined as Generally Recognised Accounting Practice ("GRAP"), comprises the approved and effective standards of GRAP, together with certain statements of International Public Sector Accounting Standards ("IPSASs"), as well as International Financial Reporting Standards ("IFRS"), comprising International Accounting Standards ("IAS"), in cases where a relevant standard of GRAP has not been issued. The standards therefore applicable to these financial statements, are :

GRAP 1 Presentation of Financial Statements
GRAP 2 Cash Flow Statements
GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 5 Borrowing Costs
GRAP 6 Consolidated and Separate Financial Statements
GRAP 9 Revenue from Exchange Transactions
GRAP 12 Inventories
GRAP 13 Leases
GRAP 14 Events after the Reporting Date
GRAP 16 Investment property
GRAP 17 Property, Plant and Equipment
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets
GAMAP 9 Paragraphs relating to Revenue from Non-Exchange Transactions
GRAP 100 Non-Current Assets Held for Sale and Discontinued Operations
GRAP 102 Intangible Assets
IPSAS 20 Related Party Disclosure
IPSAS 21 Impairment of Non Cash-Generating Assets
IFRS 7 Financial Instruments: Disclosures
IAS 19 Employee Benefits
IAS 32 Financial Instruments: Presentation
IAS 36 Impairment of Assets
IAS 39 Financial Instruments: Recognition and Measurement

1.1 Changes in accounting policy and comparability

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the year ended 30 June 2009, the municipality complied with the 3 GRAP and 7 GAMAP standards reflected in the first paragraph above and all relevant exemptions as set out in Government Gazette 30013, as at that date.

For the year ended 30 June 2010, the municipality has adopted the accounting framework as set out in point 1 above. The details of comparative restatements are set out in the notes that follow.

The municipality changes an accounting policy only if the change:
a) is required by a Standard of GRAP; or
b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

1.2 Critical judgements, estimations and assumptions

The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the municipality’s Accounting Policies and that have the most significant effect on the amounts recognised in the Annual Financial Statements:

1.2.1 Revenue Recognition

Accounting Policy 8.2 on Revenue from Exchange Transactions and Accounting Policy 8.3 on Revenue from Non-exchange Transactions describe the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GAMAP 9: Revenue, as far as Revenue from Non-Exchange Transactions is concerned (see Basis of Preparation above) . In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.2.2 Financial assets and liabilities

The classification of financial assets and liabilities into categories is based on judgement by management.

1.2.3 Impairment of Financial Assets

Accounting Policy 5.4 on Impairment of Financial Assets describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in IAS 39: Financial Instruments - Recognition and Measurement. The management of the municipality is satisfied that the impairment of financial assets recorded during the year, is appropriate.

1.2.4 Useful lives of Property, Plant and Equipment (“PPE”)

As described in Accounting Policies 2.3, 4 & 5, the municipality depreciates/amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

1.2.5 Impairment: Write down of PPE and Inventories

Significant estimates and judgments are made relating to PPE impairment tests and write down of inventories to net realisable values.

1.3 Presentation currency

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand which is the municipality's functional currency.

1.4 Going concern assumption

The Annual Financial Statements have been prepared on a going concern basis.

1.5 Offsetting

Assets, liabilities, revenues and expenses have not been offset, except when offsetting is required or permitted by a Standard of GRAP.

1.6 Standards, amendments to standards and interpretations issued but not yet effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment Reporting - issued March 2005
GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008
GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007
GRAP 103 Heritage Assets - issued July 2008

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.

The following standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted by the municipality:

IAS 19 Employee Benefits - effective 1 January 2009
IFRIC 17 Distribution of Non-cash Assets to Owners - effective 1 July 2009
IAS 39 Financial Instruments: Recognition and Measurement - portions of standard effective 1 July 2009.

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

2. PROPERTY, PLANT AND EQUIPMENT

2.1 Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost, where applicable, also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

2.2 Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment, are measured at cost (which includes deemed cost for previously unrecognised assets), less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

2.3 Depreciation

Land is not depreciated as it is regarded as having an indefinite life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives, are depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is available for use, unless stated otherwise.

The annual depreciation rates are based on the following estimated asset lives:

Infrastructure	**Years**	**Other**	**Years**
Roads and Paving	10 and 20	Building	30
Taxi Ranks	20	Vehicles	5
		Disaster Management	2-10
Community		Office equipment	2-10
Buildings	30	Furniture and fittings	2-10
Refuse Dump	20	Plant and equipment	2-15

The assets' residual values, estimated useful lives and depreciation methods are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

2.4 Incomplete Construction Work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

2.5 Finance Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

2.6 Heritage Assets

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to uncertainty regarding their estimated useful lives.

2.7 Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

2.8 Derecognition of property, plant and equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not included in revenue.

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

2.9 Impairment of assets

2.9.1 Cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

2.9.2 Impairment of Non-Cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

2.10 Transitional Provision

The estimated useful lives and the depreciation methods were not reviewed in the previous financial year as required by GAMAP 17 as these requirements were exempted in terms of General Notice 522 of 2007. The estimated useful lives and depreciation methods have been reviewed for the year ended 30 June 2010 (and retrospectively where practicable), and any changes therein have been implemented in accordance with the requirements of GRAP 17, GRAP 3 and ASB Directive 3.

The municipality did not perform impairment testing on its cash generating assets in the previous financial year as required by IAS 36/AC128, as this requirement has been exempted in terms of General Notice 522 of 2007. The testing for impairment of cash generating assets has been performed for the year ended 30 June 2010 in accordance with the requirements of IAS 36/AC128 and GRAP 3.

The municipality did not perform impairment testing on its non-cash generating assets in the previous financial year as required by IAS 36/AC128, as this requirement has been exempted in terms of General Notice 522 of 2007. The testing for impairment of non-cash generating assets has been performed for the year ended 30 June 2010 (and not retrospectively) in accordance with the requirements of IPSAS 21.

3. INTANGIBLE ASSETS

3.1 Initial Recognition

Identifiable non–monetary assets without physical substance which are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes are classified and recognised as intangible assets. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitlised.

Research expenditure is recognised as an expense when incurred.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years. Development assets are tested for impairment annually, in accordance with IPSAS 21/ IAS 36.

Intangible assets are initially recognised at cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. Where an intangible asset is acquired at no cost or for a nominal consideration, its cost is its fair value as at the date it is acquired. Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

The municipality does not recognise electricity servitudes arising from a legal right as intangible assets.

3.2 Subsequent Measurement, Amortisation and Impairment

Amortisation is charged on a straight-line basis over the intangible assets' useful lives, which are estimated to be between 3 to 5 years. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, for example servitudes obtained by the municipality give the municipality access to land for specific purposes for an unlimited period - however, such intangible assets are subject to an annual impairment test.

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

The estimated useful life and amortisation method are reviewed annually. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the Statement of Financial Performance.

3.3 Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

3.4 Transitional Provisions

Costs incurred on intangible assets (other than on computer software, websites and the valuation roll) were expensed and not capitalised in the previous financial year as required by IAS 38 as this requirement was exempted in terms of General Notice 522 of 2007. The municipality accounted for all costs incurred that meet the intangible asset definition and recognition requirements as intangible assets for the financial year ended 30 June 2010 (and retrospectively, where practicable) in accordance with the requirements of GRAP 102, GRAP 3 and ASB Directive 3.

4. INVESTMENT PROPERTY

4.1 Initial Recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases; and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owneroccupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another entity under a finance lease;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- Property held for strategic purposes or service delivery.

4.2 Subsequent Measurement - Fair Value Model

Investment property is measured using the fair value model. Investment property is carried at fair value, representing open market value determined annually by external valuers at the reporting date. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. A gain or loss arising from a change in the fair value of investment property is included in surplus or deficit for the period in which it arises.

The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

4.3 Transitional Provisions

Investment properties were recognised in terms of IAS 40 and subsequently measured in accordance with the cost model, but the fair values were not disclosed in the previous financial year as required by IAS 40 as this requirement was exempted in terms of General Notice 522 of 2007. The fair values of investment properties recognised in terms of GRAP 16 have been disclosed for the financial year ended 30 June 2009 (and retrospectively where practicable) in accordance with the requirements of GRAP 16, GRAP 3 and ASB Directive 3.

5. FINANCIAL INSTRUMENTS

The municipality has various types of financial instruments and these can be broadly categorised as either Financial Assets or Financial Liabilities.

5.1 Financial Assets - Classification

A financial asset is any asset consisting of cash or a contractual right to receive cash. The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Investments in Fixed Deposits (Banking Institutions, etc)
- Long-term Receivables
- Consumer Debtors
- Certain Other Debtors
- Short-term Investment Deposits
- Bank Balances and Cash

In accordance with IAS 39.09, the Financial Assets of the municipality are classified as follows into the four categories allowed by this standard:

Type of Financial Asset	Classification in terms of IAS 39.09
Short-term Investment Deposits – Call	Held-to-maturity investments
Bank Balances and Cash	Available for sale investments
Long-term Receivables	Loans and receivables
Consumer Debtors	Loans and receivables
Other Debtors	Loans and receivables
Investments in Fixed Deposits	Held-to-maturity investments

Financial assets at fair value through profit or loss are financial assets that meet either of the following conditions:

- they are classified as held for trading; or
- upon initial recognition they are designated as at fair value through the Statement of Financial Performance.

Available for sale investments are financial assets that are designated as available for sale or are not classified as:

- Loans and Receivables;
- Held-to-Maturity Investments; or
- Financial assets at fair value through the Statement of Financial Performance.

Loans and Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are recognised initially at cost which represents fair value. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Held-to-Maturity Investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

5.2 Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Long-term Liabilities
- Certain Other Creditors (see note 7)
- Bank Overdraft
- Short-term loans
- Current Portion of Long-term Liabilities
- Consumer Deposits

There are two main categories of Financial Liabilities, the classification determining how they are measured. Financial liabilities may be measured as:

- Fair value through profit or loss; or
- Other financial liabilities.

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives). Financial liabilities that are measured at fair value through profit or loss are stated at fair value, with any resulting gain or loss recognised in the Statement of Financial Performance.

Any other financial liabilities are classified as "Other financial liabilities" and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

In accordance with IAS 39.09 the Financial Liabilities of the municipality are all classified as "Other financial liabilities".

5.3 Initial and Subsequent Measurement

5.3.1 Financial Assets:

Held-to-maturity Investments and Loans and Receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

Financial Assets at Fair Value and Available-for-Sale are initially and subsequently, at the end of each financial year, measured at fair value with the profit or loss being recognised in the Statement of Financial Performance.

5.3.2 Financial Liabilities:

Financial liabilities at fair value are initially and subsequently measured at fair value. Other financial liabilities are measured at amortised cost using the effective interest rate method.

5.4 Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Consumer Debtors are stated at cost less a provision for bad debts. The provision is made in accordance with IAS 39.64 whereby the recoverability of Consumer Debtors is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

With the exception of Available-for-Sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of Available-for-Sale equity securities, impairment losses previously recognised through profit or loss are not reversed through the Statement of Financial performance. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

5.5 Derecognition of Financial Assets

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

5.6 Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

5.7 Transitional Provisions

Financial Assets and Liabilities and the information relating thereto were presented and disclosed in accordance with the requirements of the old version of IAS 32 in the previous financial year and not in accordance with the requirements of the new IAS 32 and IFRS 7 as these requirements were exempted in terms of General Notice 522 of 2007. Financial Assets and Liabilities and the information relating thereto are

presented and disclosed for the financial year ended 30 June 2009 (and retrospectively, where practicable) in accordance with the requirements of the new version of IAS 32 and IFRS 7 and GRAP 3.

Financial instruments were initially measured at cost and not at fair value in the previous financial year as required by IAS 39.43, AG 64, AG 65, AG 79 and SAICA Circular 9 as this requirement was exempted in terms of General Notice 522 of 2007. Financial instruments are now initially measured at fair value for the financial year ended 30 June 2009 (and retrospectively, where practicable) in accordance with the requirements of IAS 39.43, IAS 39 AG.64, IAS 39 AG.65, IAS 39 AG.79, SAICA Circular 9 and GRAP 3.

6. RISK MANAGEMENT OF FINANCIAL ASSETS AND LIABILITIES

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

Risks and exposure are disclosed as follows:

6.1 Credit Risk

- Each class of financial instrument is disclosed separately.
- Maximum exposure to credit risk not covered by collateral is specified.
- Financial instruments covered by collateral are specified.

6.2 Liquidity Risk

A maturity analysis for financial assets and liabilities that shows the remaining contractual maturities.

- Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.
- A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in the notes to the annual financial statements.

  Risk management of Financial Assets and Liabilities were presented and disclosed in accordance with the requirements of the old version of IAS 32 in the previous financial year and not in accordance with the requirements of IFRS 7 as these requirements were exempted in terms of General Notice 522 of 2007. Risk management of Financial Assets and Liabilities are presented and disclosed for the financial year ended 30 June 2010 (and retrospectively, where practicable) in accordance with the requirements of IFRS 7 and GRAP 3.

6.3 Interest Risk

Interest rate risk originates from the uncertainty about the fair value or future cash flows of a financial instrument which fluctuate because of changes in market interest rates.

- Borrowings issued at variable rates expose the municipality to cash flow interest rate risk.
- Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

Management has assessed the impact of interest rate risk on the operations of the municipality and considers the risk to be negligible.

7. NON-CURRENT ASSETS HELD-FOR-SALE

7.1 Initial Recognition

Non-current Assets and Disposal Groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Council must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

7.2 Subsequent Measurement

Non-current Assets (and Disposal Groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

7.3 Transitional Provisions

The municipality accounted for the disposal of Non-current assets and Disposal Groups in the previous financial year in accordance with the requirements of GAMAP 17, IAS 38, IAS 40 or IAS 41, as appropriate, and not in accordance with the requirements of IFRS 5 as these requirements were exempted in terms of General Notice 522 of 2007. Accounted for the disposal of Non-current assets and Disposal Groups for the year ended 30 June 2010 (and not retrospectively) in accordance with the requirements of GRAP 100 and ASB Directive 3.

8. REVENUE RECOGNITION

8.1 General

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from nonexchang transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

8.2 Revenue from Exchange Transactions

Service charges relating to refuse removal are raised by means of a rate, and the rate is recognised when the legal entitlement to this revenue arises.Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis.

Interest and rentals are recognised on a time proportion basis.

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividends.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified.The income recognised is in terms of the agency agreement.

Revenue from the sale of goods is recognised when the risk is passed to the consumer.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

Where public contributions have been received but the Municipality has not met the condition, a liability is recognised.

8.3 Revenue from Non-exchange Transactions

8.3.1 Rates and Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

8.3.2 Fines

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will received based on past experience of amounts collected.

8.3.3 Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

8.3.4 Other Donations and Contributions

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are available for use.

8.3.5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

8.4 Transitional Provisions

Revenue was initially recognised at cost and not at fair value in the previous financial year as the requirements of GAMAP 9.12 and SAICA circular 09/2006, which states that revenue should be recognised initially at fair value through discounting all future receipts using an imputed rate of return, have been exempted in terms of General Notice 522 of 2007. Revenue is initially recognised at fair value for the year ended 30 June 2009 (and retrospectively, where practicable) by discounting all future receipts using an imputed rate of return in accordance with the requirements of GRAP 9, GRAP 3 SAICA circular 09/2006.

9. GOVERNMENT GRANTS AND RECEIPTS

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the Statement of Financial Performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality’s interest it is recognised as interest earned in the Statement of Financial Performance.

10. PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

11. EMPLOYEE BENEFITS

11.1 Short-term Employee Benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs. The municipality treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

11.2 Defined Contribution Plans

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods. The municipality’s contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

11.3 Defined Benefit Plans

A defined benefit plan is a post- employment benefit plan other than a defined contribution plan.

11.3.1 Pension obligations

The municipality and its employees contribute to 2 different pension funds, namely Natal Joint Municipal Pension Fund and the Natal Joint Superannuation & Retirement Fund. These defined benefit funds were last actuarially valued during the reporting period ending 30 June 2006.

The schemes are funded through payments to fund administrator or trustee-administered funds, determined by periodic actuarial calculations. The Municipality has both defined benefit and defined contribution plans. Defined benefit plans have been accounted for as defined contribution plans in accordance with the requirements on multi-employer plans where sufficient information is not available to account for such plans as defined benefit plans. As the fund administrators do not have sufficient information available to allocate the shortfall on liabilities to individual employers, no liability is recognised for any shortfall of fund asset as compared to fund liabilities. Any surcharges that may be levied by the fund from time to time in order to

compensate for shortfalls, are recognised as expenses in the period in which they become payable to the fund. As surcharges are advised long in advance, based on actuarial valuations of the fund as a whole, the necessary provision for the payment hereof is made in the course of the municipality’s normal budgeting processes.

For defined contribution plans, the Municipality pays contributions to fund administrators. The Municipality has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

12. LEASES

12.1 The Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised as an expense in the statement of financial performance on a straight-line basis over the term of the relevant lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

12.2 The Municipality as Lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Municipality’s net investment in the leases. Finance lease or installment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality’s net investment outstanding in respect of the leases or installment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

13. BORROWING COSTS

Borrowing costs incurred relating to qualifying assets and all other borrowing costs incurred were recognised as expenses in the Statement of Financial Performance in the previous financial year. The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2009, while all other borrowing costs incurred (including borrowing cost incurred on qulaifying assets where the commencement date for capitalisation is prior to 1 July 2009) are recognised as an expense in the Statement of Financial Performance for the financial year ending 30 June 2010 in accordance with the requirements of GRAP 5 and ASB Directive 3.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established - the municipality expenses borrowing costs when it is inappropriate to capitalise it. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete.

14. VALUE ADDED TAX

The Municipality accounts for Value Added Tax on the payments basis.

15. CASH AND CASH EQUIVALENTS

Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

16. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

17. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality’s or Municipal Entities’ supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

18. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

19. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Although the retrospective application, where practicable, of changes in accounting policies affected by management in accordance with the requirements of GRAP 3 was exempted in the previous financial year in terms of General Notice 522 of 2007 (providing that these changes in accounting policies were applied prospectively by the municipality), the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of the above-mentioned General Notice which granted the municipality the retrospective application, where practicable, of changes in accounting policies affected by management in the previous financial year. The municipality continued to apply changes in accounting policies affected by management retrospectively, where practicable, for the financial year ended 30 June 2010 in accordance with the requirements of GRAP 3.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of Errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Although the identification and disclosure of the impact of GRAP standards that have been issued but are not yet effective was exempted in the previous financial year in terms of General Notice 522 of 2007, the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of the above-mentioned General Notice which granted the municipality the identification and disclosure of the impact of GRAP standards that have been issued but are not yet effective in the previous financial year. The municipality continued to identify and disclose the impact of GRAP standards that have been issued but are not yet effective for the financial year ended 30 June 2009 in accordance with the requirements of GRAP 3.

20. RELATED PARTIES

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

21. EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

22. COMPARATIVE INFORMATION

22.1 Prior year comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

23. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

24. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

		2010 R	2009 R
1.	**LONG - TERM LIABILITIES**		
	Annuity liability	2 404 390	2 710 559
	Capitalised lease liabilities	-	5 881
	Instalment sale liability	-	27 552
		2 404 390	2 743 992
	Less : Finance charges	-	(743)
		2 404 390	2 743 249
	Less : Current portion transferred to current liabilities	(321 669)	(339 602)
	Total long-term liabilities	**2 082 721**	**2 403 647**

Refer to Appendix A for more detail on long-term liabilities.
The annuity liability is secured over investment deposits
of R 977,104 (2009 : R 977,104) (see note 10).

		2010 R	2009 R
2.	**NON - CURRENT PROVISION**	**1 400 000**	**1 400 000**

Provision for the rehabilitation of the refuse sites.
The current estimated cost is still to be established.

		2010 R	2009 R
3.	**CREDITORS**		
	Trade creditors	1 618 731	3 338 014
	Retention creditors	840 376	178 978
	Debtors credit balances	493 804	380 570
	Staff leave	649 404	566 157
	Other creditors	148 301	152 245
	Total creditors	**3 750 616**	**4 615 964**

		2010 R	2009 R
4.	**UNSPENT CONDITIONAL GRANTS AND RECEIPTS**		
	4.1 Conditional grants from other spheres of Government		
	Specific Projects (see note 14)	6 817 284	4 648 123
	4.2 Other Conditional Receipts		
	ESCOM - free electricity (see note 14)	169 820	223 912
	Free basic services (see note 14)	296 372	296 372
	Housing Projects (see note 14)	3 945 005	1 789 709
	Total Conditional Grants and Receipts	**11 228 481**	**6 958 116**

See Note 14 for reconciliation of grants from all
spheres of government.These amounts are invested
in ring-fenced investments until utilised.

		2010 R	2009 R
5.	**VAT**		
	VAT refundable	**550 735**	**1 440 698**

VAT is payable on the receipts basis. Only once payment
is received from debtors is VAT paid over to SARS

6. PROPERTY, PLANT AND EQUIPMENT
30 JUNE 2010

Reconciliation of Carrying Value	Land and Buildings	Infrastructure	Community	Other	Total
	R	R	R	R	R
Carrying values at 1 July 2009	**19 742 604**	**8 166 560**	**3 407 430**	**955 152**	**32 271 746**
Cost	2 433 448	14 939 142	3 670 500	2 685 279	23 728 369
Revaluation	17 918 756	(3 638 165)	-	-	14 280 591
Accumulated depreciation	(609 600)	(3 134 417)	(263 070)	(1 730 127)	(5 737 214)
- Cost	(609 600)	(3 134 417)	(263 070)	(1 730 127)	(5 737 214)
- Revaluation	-	-	-	-	-
Acquisitions			9 192 438	246 916	9 439 354
Revaluation			10 458	3 768	14 226
Intangible assets transfers				(141 980)	(141 980)
Impairments					-
Depreciation	(90 038)	(743 051)	(223 028)	(357 447)	(1 413 564)
Adjustments and scrappings	0	1	19 053	38 187	57 241
Cost/revaluation		1	(7 226)	(644 734)	(651 959)
Accumulated depreciation			26 279	682 921	709 200
Carrying values at 30 June 2010	**19 652 566**	**7 423 510**	**12 406 351**	**744 596**	**40 227 023**
Cost	2 433 448	14 939 143	12 855 712	2 145 481	32 373 784
Revaluation	17 918 756	(3 638 165)	10 458	3 768	14 294 817
Accumulated depreciation	(699 638)	(3 877 468)	(459 819)	(1 404 653)	(6 441 578)
- Cost	(699 638)	(3 877 468)	(459 819)	(1 404 653)	(6 441 578)
- Revaluation	-	-	-	-	-

Land is stated at values at 1 July 2008, provided by the municipality's valuer.
Buildings are stated at values at 1 July 2008, provided by the municipality's valuer, and the cost of additions subsequent to 1 July 2008.

6. INTANGIBLE ASSETS
30 JUNE 2010

Reconciliation of Carrying Value	2010	2009
	R	R
Carrying values at 1 July 2009	**4 937**	**48 118**
Cost	245 917	240 589
Accumulated depreciation	(240 980)	(192 471)
Transfers	**9 973**	**-**
Cost	65 261	-
Accumulated depreciation	(55 288)	-

Acquisitions	76 719	5 328
Depreciation	(20 681)	(48 509)
Carrying values at 30 June 2010	**70 948**	**4 937**
Cost	387 897	245 917
Accumulated depreciation	(316 949)	(240 980)

6. PROPERTY, PLANT AND EQUIPMENT
30 JUNE 2009

Reconciliation of Carrying Value	Land and Buildings	Infrastruc-ture	Community	Other	Total
	R	R	R	R	R
Carrying values at 1 July 2008	**4 074 415**	**12 530 780**	**972 596**	**1 055 138**	**18 632 929**
Cost	2 321 243	14 923 999	1 155 116	2 670 753	21 071 111
Revaluation	2 303 775				2 303 775
Accumulated depreciation	(550 603)	(2 393 219)	(182 520)	(1 615 615)	(4 741 957)
- Cost	(550 603)	(2 393 219)	(182 520)	(1 615 615)	(4 741 957)
- Revaluation	-	-	-	-	-
Acquisitions	2 428 958	15 143	198 629	304 294	2 947 024
Revaluation	36 234 981	(3 638 165)			32 596 816
Investment Properties disclosure	(20 620 000)				(20 620 000)
Depreciation	(109 933)	(741 198)	(58 271)	(399 162)	(1 308 564)
Investment Properties disclosure	32 845				32 845
Adjustments and scrappings	(2 298 662)	-	2 294 476	(181)	(4 367)
Cost/revaluation	(2 316 753)		2 316 755	(43 851)	(43 849)
Accumulated depreciation	18 091		(22 279)	43 670	39 482
Intangible assets disclosed separately					
Cost				(245 917)	(245 917)
Accumulated depreciation				240 980	240 980
Carrying values at 30 June 2009	**19 742 604**	**8 166 560**	**3 407 430**	**955 152**	**32 271 746**
Cost	2 433 448	14 939 142	3 670 500	2 685 279	23 728 369
Revaluation	17 918 756	(3 638 165)	0	0	14 280 591
Accumulated depreciation	(609 600)	(3 134 417)	(263 070)	(1 730 127)	(5 737 214)
- Cost	(609 600)	(3 134 417)	(263 070)	(1 730 127)	(5 737 214)
- Revaluation	-	-	-	-	-

Land is stated at values at 1 July 2008, provided by the municipality's valuer.
Buildings are stated at values at 1 July 2008, provided by the municipality's valuer, and the cost of additions subsequent to 1 July 2008.

6. INTANGIBLE ASSETS
30 JUNE 2009

	2009	2008
	R	R

Cost	245 917	240 589
Accumulated depreciation	(240 980)	(192 471)
Carrying value	**4 937**	**48 118**

		2010	2009
		R	R
7.	**INVESTMENT PROPERTIES**		
	Carrying value at beginning of the year	20 587 155	20 587 155
	Loss on valuation	-	-
	Gain on valuation	-	-
	Sale of properties	-	-
	Carrying value at end of the year	**20 587 155**	**20 587 155**
8.	**CONSUMER DEBTORS**		
	Service debtors		
	Rates	3 544 200	2 515 815
	Refuse	626 010	534 204
	Sundry	122 174	131 645
		4 292 384	3 181 664
	Less: Provision for bad debts	(1 644 760)	(1 672 353)
	Total	**2 647 624**	**1 509 311**

There were no arrears owed by Councillors outstanding for more than 90 days during the financial year.

	2010	2009
Rates:Ageing		
Current (0-30 days)	223 159	334 112
31 - 60 Days	375 938	307 232
61 - 90 Days	252 192	266 540
91 - 120 Days	220 769	260 326
120 + Days and more	2 472 142	1 347 605
Total	**3 544 200**	**2 515 815**
Refuse and Sundry:Ageing		
Current (0-30 days)	19 333	123 007
31 - 60 Days	88 619	72 145
61 - 90 Days	70 779	89 692
91 - 120 Days	57 000	56 257
120 + Days and more	512 453	324 748
Total	**748 184**	**665 849**

The debtors system does not cater for customer classification of debtors, nor does it cater for further ageing of the 120+Days and more categories.

		2010	2009
	Reconciliation of the Bad Debt Provision		
	Balance at beginning of the year	1 672 353	304 430
	Contribution to provision	24 905	1 455 075
	Bad debts written off against the provision	(52 498)	(87 152)
	Balance at end of the year	**1 644 760**	**1 672 353**
	Bad debts written off in the Statement of Financial Performance	**-**	**13 786**
9.	**OTHER DEBTORS**		
	Payments in advance	46 415	46 415
	Other	557 623	4 834
		604 038	**51 249**
	Less: Provision for bad debts	-	-
	Total Other Debtors	**604 038**	**51 249**

	2010 R	2009 R
10. CALL INVESTMENT DEPOSITS		
Other deposits	**13 230 132**	**9 581 605**

Deposits of R 1,159,832 (2009 : R1,165,537) will be ring-fenced and attributable to the Capital Replacement Reserve.
Further deposits of R 11,228,481 (2009 : R 6,958,116) have also been ring-fenced to cover unspent conditional grants and receipts.
Deposits of R 977,104 at 30 June 2010 (2009 : R 977,104) have been ceded to the Development Bank of SA (DBSA) as collateral for the loan of R 3,417,312 taken up from DBSA. (see note 1)

11. BANK BALANCES AND CASH

11.1 The Municipality has the following bank accounts:

	2010 R	2009 R
Current Account (Primary Bank Account)		
First National Bank-Underberg Branch		
Account Number 62026224999		
Cash book balance at beginning of year	21 458	178 024
Cash book balance at end of year	145 331	21 458
Bank Statement balances at beginning of year	34 329	241 855
Bank Statement balances at end of year	144 438	34 329
Business Cheque Accounts		
First National Bank-Underberg Branch		
Account Number 62026225046		
Cash book balances at beginning of year	948 238	823 791
Cash book balances at end of year	872 757	948 238
Bank statement balances at beginning of year	948 238	823 791
Bank statement balances at end of year	872 757	948 238
Standard Bank-Pietermaritzburg Branch		
Account Number 0520700336		
Cash book balance at beginning of year	88 922	89 858
Cash book balance at end of year	87 974	88 922
Bank statement balance at beginning of year	88 922	89 858
Bank statement balance at end of year	87 974	88 922
Total cash book balances at end of year	1 106 062	1 058 618
11.2 Cash balances	931	1 171
Total bank balances and cash	**1 106 993**	**1 059 789**

		2010 R	2009 R
12.	**PROPERTY RATES**		
	Actual		
	Residential	3 580 335	3 463 885
	Commercial	3 234 584	3 082 580
	State	530 309	249 136
	Municipal	-	-
	Total Assessment Rates	**7 345 228**	**6 795 601**
	Valuations		
	Residential	605 169 300	563 715 355
	Commercial	1 821 093 100	1 837 612 400
	State	60 047 000	60 047 000
	Municipal	42 365 000	42 935 000
	Total Property Valuations	**2 528 674 400**	**2 504 309 755**
13.	**SERVICE CHARGES**		
	Refuse removal	1 683 977	1 602 924
	Sundry charges	4 912	6 324
	Total Service Charges	**1 688 889**	**1 609 248**
14.	**GOVERNMENT GRANTS AND SUBSIDIES**		
	Equitable Share	7 103 345	5 281 001
	Specific Projects	4 146 987	3 045 689
	Free Electricity	54 092	1 041 356
	Free Basic Services	-	112 819
	Housing Projects	21 331 974	18 591 095
	Total Government Grants and Subsidies	**32 636 398**	**28 071 960**
	14.1 Equitable share		
	This grant has been used to cover operating expenditure.		
	14.2 Specific Projects		
	Balance unspent at beginning of year	4 648 123	3 911 211
	Current year receipts	14 859 386	6 166 148
	Gijima Hand Craft Project	(180 831)	-
	Capital expenditure funded - transferred to revenue	(8 312 966)	(2 383 547)
	Conditions met - transferred to sundry income	(49 441)	-
	Conditions met - transferred to revenue	(4 146 987)	(3 045 689)
	Conditions still to be met - transferred to liabilities (see note 4)	**6 817 284**	**4 648 123**
	14.3 ESCOM-free electricity		
	Balance unspent at beginning of year	223 912	1 099 656
	Current year receipts	-	165 612
	Conditions met - transferred to revenue	(54 092)	(1 041 356)
	Conditions still to be met - transferred to liabilities (see note 4)	**169 820**	**223 912**
	14.4 Free basic services		
	Balance unspent at beginning of year	296 372	409 191
	Current year receipts	-	-
	Conditions met - transferred to revenue	-	(112 819)
	Conditions still to be met - transferred to liabilities (see note 4)	**296 372**	**296 372**
	14.5 Housing Projects		
	Balance unspent at beginning of year	1 789 709	(50 921)
	Current year receipts	23 487 270	20 431 725
	Expenditure funded - transferred to revenue and expenditure	(21 331 974)	(18 591 095)
	Conditions still to be met - transferred to liabilities (see note 4)	**3 945 005**	**1 789 709**

	2010	2009
Note 14 (continued)	**R**	**R**

14.6 Changes in levels of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 1 of 2005), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

15. OTHER INCOME

	2010 R	2009 R
Building plans	81 660	100 435
Tourism	-	(600)
Refund of portable toilets costs	406 543	-
Sale of trees	76 000	-
Other income	178 138	163 158
Total Other Income	**742 341**	**262 993**

16. EMPLOYEE RELATED COSTS

	2010 R	2009 R
Employee related costs - Salaries and Wages	6 733 549	5 281 947
Employee related costs - Contributions to UIF,pensions and medical ai	777 289	726 923
Travel, motor car, accommodation, subsistence and other allowances	-	7 541
Housing benefits and allowances	25 064	31 320
Overtime payments	443 747	894 554
Performance bonus	-	-
Total Employee Related Costs	**7 979 649**	**6 942 285**

There were no advances to employees.

Remuneration of the Municipal Manager

	2010 R	2009 R
Annual Remuneration	623 516	562 571
Performance Bonuses	-	-
Car Allowance	-	-
Other Allowances	-	-
Contributions to UIF,Medical and Pension Funds	-	1 497
Total	**623 516**	**564 068**

Remuneration of the Chief Finance Officer

	2010 R	2009 R
Annual Remuneration	466 961	333 844
Performance Bonuses	-	-
Housing subsidy	3 327	8 856
Car Allowance	-	-
Contributions to UIF,Medical and Pension Funds	43 694	100 599
Total	**513 982**	**443 299**

Remuneration of Head of Community and Technical Services

	2010 R	2009 R
Annual Remuneration	375 318	333 844
Performance Bonuses	-	-
Housing subsidy	8 129	8 856
Car Allowance	-	-
Contributions to UIF, Medical and Pension Funds	19 883	12 812
Total	**403 330**	**355 512**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 201(

		2010 R	2009 R
17.	**REMUNERATION OF COUNCILLORS**		
	Mayor	278 979	192 039
	Deputy Mayor	225 286	137 209
	Councillors	635 825	756 557
	Total	**1 140 090**	**1 085 805**
18.	**INTEREST PAID**		
	External loans	132 535	163 298
	Creditors	-	-
	Total	**132 535**	**163 298**
19.	**GENERAL EXPENSES**		
	Subsistence and travel	749 137	870 016
	Electricity	113 301	84 005
	Photocopiers	226 430	196 371
	Printing	226 795	213 243
	Staff training	39 449	28 853
	Telephone	346 484	365 489
	Advertising	137 990	16 735
	Computer costs	96 568	115 574
	Free basic services	54 092	1 154 175
	Stationery	89 764	62 408
	Audit fees	660 269	322 048
	Fuel and oil	329 570	354 751
	Insurances	216 493	192 387
	Legal and collection costs	172 367	188 226
	Special and youth programmes	113 034	141 005
	Public participation	45 084	124 089
	Contributions to staff leave provision	221 870	345 848
	Disaster management	404 964	332 486
	Street lights electricity	94 746	72 667
	Refuse bags	49 654	61 252
	Lease for staff quarters	137 501	148 848
	Hire of portable toilets	156 416	126 488
	Integrated Development Plan	24 236	214 411
	Other general expenses	923 048	1 004 038
		5 629 262	**6 735 413**

		2010 R	2009 R
20.	**CASH GENERATED BY OPERATIONS**		
	Surplus (Deficit) for the year	9 392 594	(953 869)
	Adjustment for: -		
	Depreciation	1 413 564	1 308 564
	Contribution to bad debts provision	24 905	1 455 075
	Expenditure charged to bad debts provision	(52 498)	(87 152)
	Profit on sale of property, plant and equipment	(92 803)	-
	Revaluation of property, plant and equipment	(109 429)	-
	Loss on scrapping of property, plant and equipment	19 292	4 365
	Impairment of property, plant and equipment	95 203	-
	Investment income	(488 931)	(792 223)
	Interest paid	132 535	163 298
	Investment income : Capital Replacement Reserve	59 406	-
	Operating surplus before working capital changes:	**10 393 838**	**1 098 058**
	(Increase)/decrease in consumer debtors	(1 110 720)	(771 064)
	(Increase)/decrease in other debtors	(552 789)	200 310
	Increase/(decrease) in unspent conditional grants and receipts	4 270 365	1 588 979
	Increase/(decrease) in creditors	(865 348)	2 446 500
	Adjustments to property, plant and equipment	(564)	-
	(Increase)/decrease in VAT	889 963	(408 458)
	Cash generated by / (utilised in) operations	**13 024 745**	**4 154 325**

21. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position:

	2010	2009
Bank balances and cash	**1 106 993**	**1 059 789**

22. ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

22.1 Contributions to organized local government

	2010	2009
Opening balance	-	-
Council subscriptions	-	37 100
Amount paid - current year	-	(37 100)
Amount paid - previous years	-	-
Balance unpaid	**-**	**-**

22.2 Audit fees

	2010	2009
Opening balance	-	-
Previous year audit fee	660 269	327 843
Amount paid - previous years	(654 190)	(327 843)
Balance unpaid (included in creditors)	**6 079**	**-**

The balance unpaid represents the estimated costs not paid at 30 June

22.3 VAT

VAT inputs receivables and VAT outputs payable are shown in note 5. All Vat returns have been submitted by the due date throughout the year.

22.4 PAYE, UIF and SDL

	2010	2009
Opening balance	-	-
Current year payroll deductions and Council Contributions	1 087 880	990 145
Amount paid - current year	(1 087 880)	(990 145)
Balance unpaid	**-**	**-**

	2010	2009
	R	R
22.5 Pension and Medical Aid Deductions		
Opening balance	-	-
Current year payroll deductions and Council Contributions	986 037	823 490
Amount paid - current year	(986 037)	(823 490)
Amount paid - previous years	-	-
Balance unpaid	**-**	**-**

23. LEASES

Operating Leases

	2010	2009
The future minimum lease payments payable under operating leases for the actual liability are as follows :		
No later than 1 year	408 322	410 999
Later than I year and no later than 5 years	738 941	1 147 263
Later than 5 years	-	-
	1 147 263	**1 558 262**
The future minimum lease payments receivable under operating leases for the actual receivables are as follows :		
No later than 1 year	301 774	274 340
Later than I year and no later than 5 years	1 540 585	1 842 359
Later than 5 years (cannot be determined)		
	1 842 359	**2 116 699**

24. CAPITAL COMMITMENTS

	2010	2009
Commitments in respect of capital expenditure:		
-Approved and contracted for	16 295 718	31 770 731
Infrastructure	-	-
Community	939 293	941 870
Other - Housing Projects	15 356 425	30 828 861
-Approved but not yet contracted for	-	-
Infrastructure	-	-
Community	-	-
Other - Housing Projects	-	-
Total	**16 295 718**	**31 770 731**
This expenditure will be financed from;		
-External Loans	-	-
-Capital Replacement Reserve	-	-
-Government Grants	16 295 718	31 770 731
-Own resources	-	-
Total	**16 295 718**	**31 770 731**

25. BAD DEBTS

	2010	2009
Staff loan written off	-	13 786
Contributions to the provision for bad debts	24 905	1 455 075
	24 905	**1 468 861**

	2010	2009
	R	R
26. CONTINGENT LIABILITY	-	-

27. RETIREMENT BENEFIT INFORMATION

The personnel are members of the Natal Joint Municipal Pension Funds.

The following information is taken from an interim actuarial valuation report of the Retirement Fund as at 31 March 2008.	Retirement Fund
Surplus in respect of pensioners	R 195,9 million
Funding level	134,7%
Shortfall in respect of members	R(170,6)million
Funding level	82,6%

The Funds did not hold an investment reserve.
An amount of R 468,856 (2009 : R 438,219) was contributed by Council in respect of employees retirement funding.
These contributions have been expensed.

28. CORRECTION OF ERROR

Investment properties

Investment properties have been identified and disclosed in the Statement of Financial Position.
Their value is stated at R 20,587,155.
The 2009 comparative figures have been re-stated as follows :

Previously stated	
Property,plant and equipment	52 858 900
Now stated	
Property,plant and equipment	32 271 745
Investment properties	20 587 155
	52 858 900

The affected balances and amounts are detailed in the Statement of Changes in Net Assets on page 4.

29. UNAUTHORISED EXPENDITURE / FRUITLESS AND WASTEFUL EXPENDITURE

There was no unauthorised, fruitless and wasteful expenditure.

30. OTHER DISCLOSURES

30.1 Subsequent events

There have been no events subsequent to 30 June 2009 which affect or impact upon these financial statements.

30.2 Related parties

There are no related parties transactions.

30.3 Non-current assets and discontinued operations

There are no non-current assets held for sale, and none of the operations have been discontinued.

APPENDIX A
KWA SANI MUNICIPALITY: SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2010

EXTERNAL LOANS	Redeemable	Balance at 30.06.2009	Received during the year	Redeemed during the year	Balance at 30.06.2010	Carrying Value of Property,Plant and Equipment
		R	R	R	R	R
Development Bank of SA annuity liability @ 5.0%	Half yearly, ending January 2017	2 710 559		(306 169)	2 404 390	2 382 205
Capitalised lease liability @ 11.25%	Monthly, ending July 2009	5 881		(5 881)	-	35 592
Instalment sale liability @ 13.079%	Monthly, ending December 2009	27 552		(27 552)	-	38 842
		2 743 992	**0**	**(339 602)**	**2 404 390**	**2 456 639**

APPENDIX B

KWA SANI MUNICIPALITY: ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2010

	Cost /Revaluation					Accumulated Depreciation					Value Before	Revaluation	Carrying	Budget
	Opening Balance	Additions 2009/2010	Reallocations 2009/2010	Disposals 2009/2010	Closing Balance	Opening Balance	Additions 2009/2010	Reallocations 2009/2010	Disposals 2009/2010	Closing Balance	Revaluation Impairment	(Impairment)	Value 30/06/2010	Additions 2010
Land and Buildings														
Land	13 320 000				13 320 000	-				-	13 320 000		13 320 000	
Buildings (Office)	5 912 204				5 912 204	422 706	75 651			498 357	5 413 847		5 413 847	
Building (Shed erf 239)	390 000				390 000	-				0	390 000		390 000	
Building (Old office erf 178)	250 000				250 000	-				0	250 000		250 000	
Buildings (Library,LCH)	-				-	160 189	11 601			171 790	(171 790)		(171 790)	
Fire Engine Garage(Building)	-				-	-				0	0		0	
LCH Community Hall	480 000				480 000	2 685	861			3 546	476 454		476 454	
Informal Trading Kiosk(Building)	-				-	23 673	1 883			25 556	(25 556)		(25 556)	
Public Toilets(Building)	-				-	347	42			389	(389)		(389)	
	20 352 204	**-**	**0**	**-**	**20 352 204**	**609 600**	**90 038**	**-**	**-**	**699 638**	**19 652 566**	**0**	**19 652 566**	**0**
Infrastructure														
Roads,Sreets,Taxi ranks	11 300 977		1		11 300 978	3 134 417	743 051			3 877 468	7 423 510		7 423 510	
	11 300 977	**0**	**1**	**-**	**11 300 978**	**3 134 417**	**743 051**	**-**	**-**	**3 877 468**	**7 423 510**	**0**	**7 423 510**	**0**
Community Assets														
Refuse Dump	1 353 746	18 171	17 544	(24 770)	1 364 691	244 978	78 167	(10 667)	(15 612)	296 866	1 067 825	10 458	1 078 283	
Halls and Creches	2 316 754	8 737 301			11 054 055	18 092	144 861			162 953	10 891 102		10 891 102	5 650 000
Sports Fields	-	436 966			436 966	-				-	436 966		436 966	
	3 670 500	**9 192 438**	**17 544**	**(24 770)**	**12 855 712**	**263 070**	**223 028**	**(10 667)**	**(15 612)**	**459 819**	**12 395 893**	**10 458**	**12 406 351**	**5 650 000**
Other Assets														
Motor Vehicles	1 207 837			(461 444)	746 393	828 881	195 681		(461 444)	563 118	183 275		183 275	
Plant and Machinery/Equipment	663 898		(11 123)	(32 353)	620 422	365 086	44 269	10 667	(30 523)	389 499	230 923	(67 814)	163 109	100 600
Emergency Equipment	47 678		(5 889)		41 789	30 746	2 997			33 743	8 046	9 977	18 023	
Office Equipment	688 005	197 167	532	(120 156)	765 548	578 032	66 152		(114 725)	529 459	236 089	37 949	274 038	2 200
Office Furniture & Fittings	323 778	49 749	1	(14 302)	359 226	168 362	48 348	502	(11 429)	205 783	153 443	23 656	177 099	62 850
Total Other Assets	**2 931 196**	**246 916**	**(16 479)**	**(628 255)**	**2 533 378**	**1 971 107**	**357 447**	**11 169**	**(618 121)**	**1 721 602**	**811 776**	**3 768**	**815 544**	**165 650**
	38 254 877	**9 439 354**	**1 066**	**(653 025)**	**47 042 272**	**5 978 194**	**1 413 564**	**502**	**(633 733)**	**6 758 527**	**40 283 745**	**14 226**	**40 297 971**	**5 815 650**
Intangible assets														
- disclosed separately	**(245 917)**	**(76 719)**	**(65 261)**		**(387 897)**	**(240 980)**	**(20 681)**	**(55 288)**		**(316 949)**	**(70 948)**		(70 948)	
Total Fixed Assets	**38 008 960**	**9 362 635**	**(64 195)**	**(653 025)**	**46 654 375**	**5 737 214**	**1 392 883**	**(54 786)**	**(633 733)**	**6 441 578**	**40 212 797**	**14 226**	**40 227 023**	**5 815 650**
Housing Projects	26 935 629	21 331 974			48 267 603	-	-	-	-	-	48 267 603		48 267 603	15 780 490
Total	64 944 589	30 694 609	(64 195)	(653 025)	94 921 978	5 737 214	1 392 883	(54 786)	(633 733)	6 441 578	88 480 400	14 226	88 494 626	21 596 140

APPENDIX C

KWA SANI MUNICIPALITY: SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT
30 JUNE 2010

	Cost					Accumulated Depreciation					Value Before	Revaluation	Carrying
	Opening Balance	**Additions 2009/2010**	**Reallocations 2009/2010**	**Disposals 2009/2010**	**Closing Balance**	**Opening Balance**	**Additions 2009/2010**	**Reallocations 2009/2010**	**Disposals 2009/2010**	**Closing Balance**	**Revaluation (Impairment)**	**(Impairment)**	**Value 30/06/2010**
Administration	1 130 015	246 916	534	(132 215)	1 245 250	806 803	148 191	502	(123 909)	831 587	413 663	53 730	467 393
Council	22 147 773	9 174 267	(17 012)		31 305 028	407 954	220 512			628 466	30 676 562		30 676 562
Library	396 334			(2 243)	394 091	201 611	15 840		(2 244)	215 207	178 884	7 875	186 759
Licensing	20 810				20 810	11 059	1 974			13 033	7 777		7 777
Traffic	298 887			(70 799)	228 088	216 174	40 423		(70 799)	185 798	42 290		42 290
Refuse Removal	1 778 471	18 171	17 544	(376 270)	1 437 916	569 085	150 014	(10 667)	(365 312)	343 120	1 094 796	(76 851)	1 017 945
Town Estates	12 351 215			(71 498)	12 279 717	3 701 917	833 613	10 667	(71 469)	4 474 728	7 804 989	19 495	7 824 484
Fire Services	131 372				131 372	63 591	2 997			66 588	64 784	9 977	74 761
	38 254 877	9 439 354	1 066	(653 025)	47 042 272	5 978 194	1 413 564	502	(633 733)	6 758 527	40 283 745	14 226	40 297 971
Intangible assets													
- disclosed separately	(245 917)	(76 719)	(65 261)		(387 897)	(240 980)	(20 681)	(55 288)		(316 949)	(70 948)		(70 948)
TOTAL	**38 008 960**	**9 362 635**	**(64 195)**	**(653 025)**	**46 654 375**	**5 737 214**	**1 392 883**	**(54 786)**	**(633 733)**	**6 441 578**	**40 212 797**	**14 226**	**40 227 023**

APPENDIX D

KWA SANI MUNICIPALITY: SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2010

2009 Actual Income	2009 Actual Expenditure	2009 Surplus / (Deficit)		2010 Actual Income	2010 Actual Expenditure	2010 Surplus / (Deficit)
R	R	R		R	R	R
6 795 601	-	6 795 601	Rates	7 345 228		7 345 228
10 721 894	7 939 121	2 782 773	Finance and Administration	12 962 609	8 657 629	4 304 980
41 580	4 758 896	(4 717 316)	Executive and Council	-	3 481 216	(3 481 216)
98 545	1 833 845	(1 735 300)	Public Safety	35 100	1 817 164	(1 782 064)
141 287	766 601	(625 314)	Road Transport	141 500	583 714	(442 214)
4 666	234 738	(230 072)	Community and Social Services	2 238	211 370	(209 132)
1 609 248	1 960 490	(351 242)	Waste Management	1 736 207	1 591 624	144 583
10	3 830 152	(3 830 142)	Other (Works)	450 682	3 873 958	(3 423 276)
399 822	1 460 876	(1 061 054)	Planning and Development	127 629	1 117 547	(989 918)
(600)	364 750	(365 350)	Tourism	-	387 343	(387 343)
2 383 547	-	2 383 547	Government Grants for capital expenditure	8 312 966	-	8 312 966
18 591 095	18 591 095	-	Housing Projects	21 331 974	21 331 974	-
40 786 695	**41 740 564**	**(953 869)**	**TOTAL**	**52 446 133**	**43 053 539**	**9 392 594**

APPENDIX E (1)

KWA SANI MUNICIPALITY: ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE)
FOR THE YEAR ENDED 30 JUNE 2010

	2010 Actual R	2010 Budget R	2010 Variance R	%	Explanation of Significant Variances greater than 10%
REVENUE					
Property rates	7 345 228	7 375 632	(30 404)	(0.4)	Not applicable
Property rates-penalties and charges	608 262	373 909	234 353	62.7	Increase is due to less debtor recoveries than budgeted.
Service charges	1 688 889	1 813 187	(124 298)	(6.9)	Not applicable
Rental on facilities and equipment	235 518	284 842	(49 324)	(17.3)	In 2009 arrear rental from Sisonke was received, and this led to the 2010 income being over-budgeted for..
Interest earned-external investments	488 931	824 037	(335 106)	(40.7)	Income over-budgeted.
Fines	41 850	250 630	(208 780)	(83.3)	Department not fully functional due to vacancy and illness.
Licences and permits	143 518	531 321	(387 803)	(73.0)	Income over-budgeted - Department was shut down by the Department of Transport in June 2008.
Government grants and subsidies	32 636 398	26 242 302	6 394 096	24.4	Income under-budgeted and progress on the housing projects was quicker than budgeted for.
Profit on sale of property, plant and equipment	92 803	-	92 803	100.0	Not budgeted for.
Revaluation of property, plant and equipment	109 429	-	109 429	100.0	Not budgeted for.
Capital grants	8 312 966	-	8 312 966	100.0	Not budgeted for - change in GRAP requirements.
Other Income	742 341	579 050	163 291	28.2	Mainly because refund for portable toilets costs was not budgeted for.
Total Revenue	52 446 133	38 274 910	14 171 223		
EXPENDITURE					
Employee related costs	7 979 649	7 669 269	(310 380)	(4.0)	Not applicable
Remuneration of Councillors	1 140 090	1 221 209	81 119	6.6	Not applicable
Bad debts	24 905	536 470	511 565	95.4	The provision for bad debts was increased significantly in 2009 - after the 2010 budget was approved.
Depreciation	1 413 564	1 026 011	(387 553)	(37.8)	The budgeted expense was under-stated.
Repairs and maintenance	476 822	717 400	240 578	33.5	The budgeted roads repairs were not undertaken because of lack of funds.
Interest paid	132 535	137 792	5 257	3.8	Not applicable
Grants paid	-	-	-	-	Not applicable
Contracted services	4 750 837	5 068 466	317 629	6.3	Not applicable
General expenses	5 629 262	5 502 153	(127 109)	(2.3)	Not applicable
Interest earned - transferred to Reserve	59 406	-	(59 406)	(100.0)	Not budgeted for - change in GRAP requirements.
Housing Projects expenditure	21 331 974	15 780 490	(5 551 484)	(35.2)	Progress on the housing projects was quicker than budgeted for.
Loss on scrapping of property, plant and equipment	19 292	-	(19 292)	(100.0)	Not budgeted for.
Impairment of property, plant and equipment	95 203	-	(95 203)	(100.0)	Not budgeted for.
Contribution to Reserves	-	615 650	615 650	100.0	Contribution made from Accumulated Surplus in accordance with GRAP
Total Expenditure	43 053 539	38 274 910	(4 778 629)		
(LOSS) SURPLUS FOR THE YEAR	**9 392 594**	**-**			